35th Annual Report

1958

NATIONAL DAIRY
PRODUCTS CORPORATION

NATIONAL DAIRY PRODUCTS CORPORATION

35th Annual Report

For The Year Ending December 31, 1958

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NOTICE TO STOCKHOLDERS

ANNUAL MEETING: The Annual Meeting of the stockholders of National Dairy Products Corporation will be held on Thursday, April 16, 1959, at 11 a.m. at the Hotel Commodore, 42nd Street and Lexington Avenue, New York City. A formal notice of the meeting, together with proxy statement and proxy form, will be mailed to each stockholder on or about March 20, at which time proxies will be requested for use at this meeting.

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CORPORATION FILE

TO OUR STOCKHOLDERS

The year 1958, which marked our 35th Anniversary, again witnessed the consistent growth that has been characteristic of National Dairy throughout its history. The inherent stability of the food business, together with economies in operations, provided a profitable basis for the continued market-by-market cultivation of all our product lines.

One of the great challenges of the food industry today is not only to feed more people but, with a higher standard of living, to feed them better. With this in mind, we strengthened our research program during the year in order to exert more emphasis on the development of new and improved products. Through this program, combined with more efficient production facilities and better merchandising and distribution methods, we can continue to meet the ever-changing patterns of the marketplace.

Since the Company's founding in 1923, it has been our privilege to play a part in the growth of the Nation and to contribute to the welfare of its people. Building upon the heritage of the past, we continued in 1958 to operate usefully and profitably and to enhance the stockholders' investment. We hope that this Annual Report, covering the 35th Anniversary year of National Dairy, will not only inform our stockholders on the present status of the business, but also reflect its promise for the future.

E E Stewart

President and
Chairman of the Board

REVIEW IN BRIEF

OPERATING RECORD

	1958	1957
WE RECEIVED INCOME:		
From the Sale of Products	$1,451,245,000	$1,432,319,000
From Other Sources	6,119,000	6,130,000
Total Income	$1,457,364,000	$1,438,449,000
WE INCURRED COSTS AND EXPENSES:		
Milk and Other Products	$ 795,003,000	$ 790,152,000
Wages and Salaries	244,638,000	244,558,000
Operating Services and Supplies	145,701,000	140,574,000
Packaging	110,242,000	106,982,000
Taxes	57,869,000	54,373,000
Repairs and Maintenance	27,454,000	27,100,000
Depreciation	28,285,000	27,917,000
Interest on Long-term Debt	2,627,000	2,735,000
Total Costs and Expenses	$1,411,819,000	$1,394,391,000
WE EARNED:		
In Total	$ 45,545,000	$ 44,058,000
On Each Share of Stock	$3.27	$3.18
On Each Dollar of Sales	3.14%	3.08%
WHICH WAS DISTRIBUTED AS FOLLOWS:		
Retained in Business	$ 20,572,000	$ 19,166,000
Dividends to Shareholders	24,973,000	24,892,000
Per Share	$1.80	$1.80

FINANCIAL POSITION

	1958	1957
WE OWNED:		
Cash	$ 44,302,000	$ 54,918,000
Accounts Due Us	69,686,000	65,841,000
Products, Materials and Supplies	163,746,000	146,417,000
Property, Plant and Equipment (net)	253,422,000	239,676,000
Investments and All Other Assets	26,936,000	28,416,000
Total Owned	$ 558,092,000	$ 535,268,000
WE OWED:		
For Materials, Services and Taxes (net)	$ 101,467,000	$ 96,801,000
Long-term Debt (less Debentures in treasury)	86,532,000	92,147,000
Reserves, etc.	6,501,000	4,744,000
Total Owed	$ 194,500,000	$ 193,692,000
NET WORTH:		
Difference between What We Owned and What We Owed	363,592,000	341,576,000
	$ 558,092,000	$ 535,268,000

(The statements of Consolidated Profit and Loss and Surplus will be found on pages 18 and 19; Consolidated Balance Sheets on pages 16 and 17.)

REPORT OF MANAGEMENT

Sales

National Dairy in 1958 did the largest volume of business in its 35 years of operations. Sales of our products in the United States and Canada amounted to $1,451,245,000 as compared with $1,432,319,000 in 1957, an increase of $18,926,000. We processed and moved to market a record tonnage of foods, with most of our many product lines contributing to the increase in sales volume.

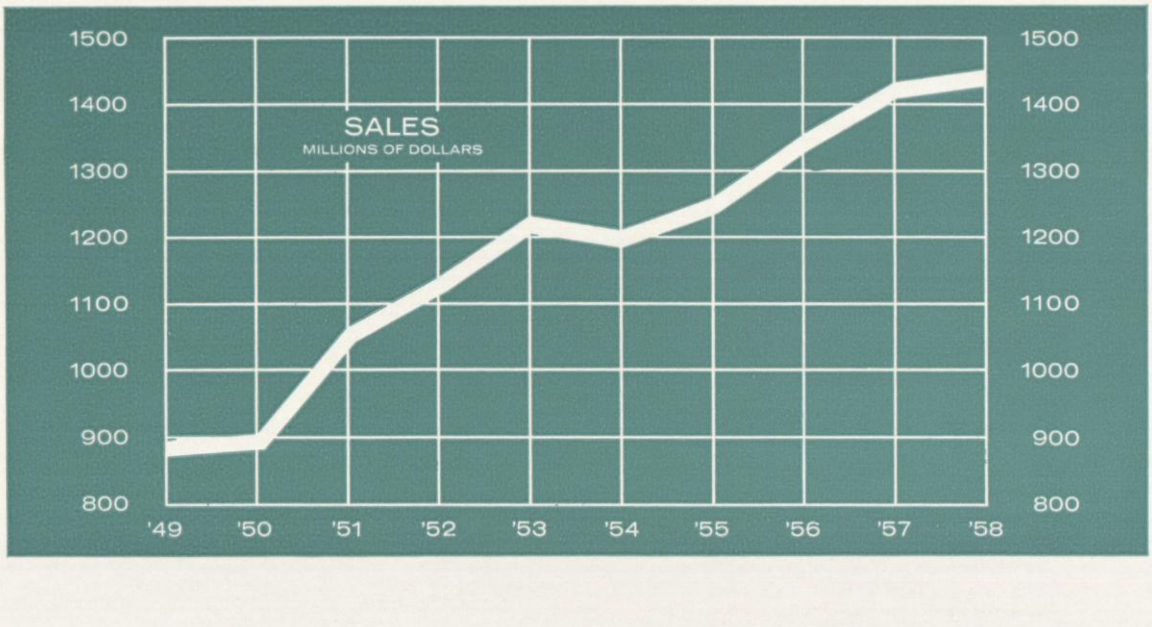
The Company's total sales, including the unconsolidated foreign sales, exceeded a billion and a half dollars. The results attained throughout all phases of the business are shown in the Financial Statements on Pages 16-23 of this Report, which includes a Condensed Statement of our overseas business on Page 21.

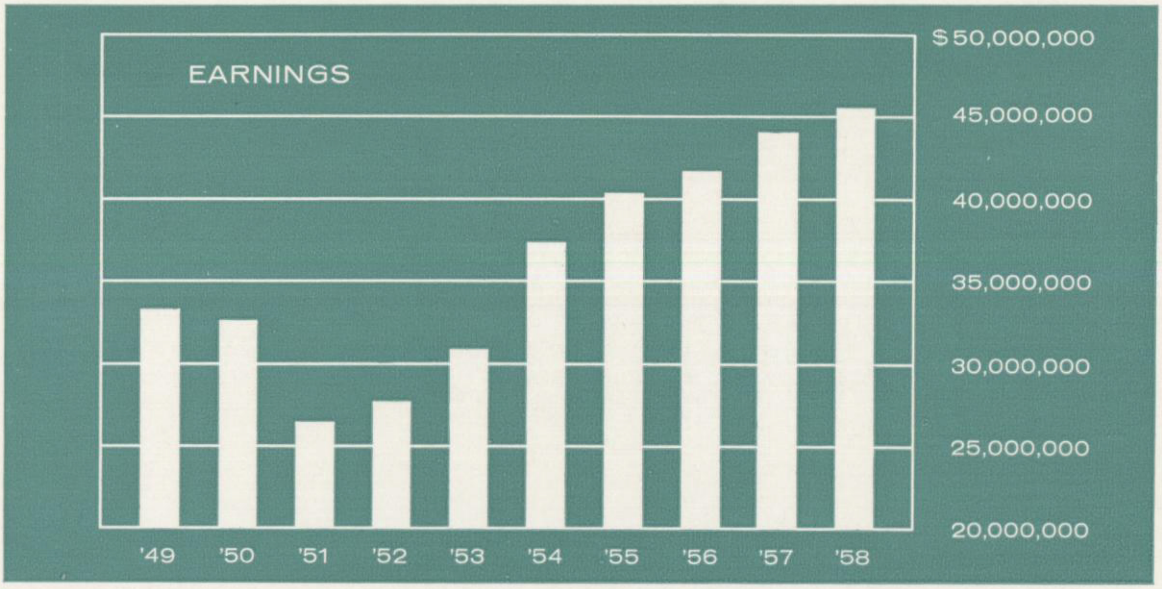
Earnings

Our various Divisions operated profitably for the year, and the Company's total earnings were higher than those of 1957. Earnings after taxes were $45,545,000 as against $44,058,000 for 1957. This is the equivalent in net earnings of $3.27 per share as compared with $3.18 per share for the preceding year.

Dividends

Cash dividends paid to our stockholders in 1958 totaled $24,973,000, and equaled $1.80 per share. At the year-end, the 68,681 stockholders of National Dairy were comprised of 66,282 individuals and 2,399 institutions, the latter group including a wide variety of finan-





cial agencies, insurance companies, universities and philanthropic organizations. There were 13,895,177 shares of stock outstanding as compared with 13,845,458 shares at the end of 1957.

COSTS

Our program for achieving operating economies, together with efficiencies resulting from new plants and equipment installed in recent years, helped us to combat the continued rise in the cost of doing business. The Company's total costs and expenses for 1958 were $1,411,819,000 as compared with $1,394,391,000 for 1957. The cost of raw materials alone took 54.8 per cent of our total sales revenue. Other costs were as follows: 16.9 per cent for wages and salaries; 21.2 per cent for other operating charges, and 4 per cent for taxes. The remaining 3.1 per cent represented the net profit realized on 1958 sales.

TAXES

Before providing for Federal and Canadian income taxes, the Company's earnings for the year amounted to $87,645,000, as compared with $83,758,000 for the previous year. The provision for income taxes was $42,100,000 as against $39,700,000 for 1957.

Other taxes, including state and local, amounted to $15,769,000, an increase of more than a million dollars. Our total tax bill for the year was $57,869,000, which equals $4.16 on each share of stock.

FINANCIAL POSITION

National Dairy closed the year 1958 in a sound financial position. Our current assets were $277,734,000 and current liabilities $102,349,000, with working capital amounting to $175,385,000 as compared with $167,128,000 for the prior year-end. Property, plant and equipment less depreciation, amounted to $253,422,000; while total assets were $558,092,000.

During 1958, long-term debt was reduced to $86,532,000. Stockholders' equity totaled $363,592,000 at the close of the year, as against $341,576,000 in 1957, an increase of $22,016,000.

CAPITAL
EXPENDITURES

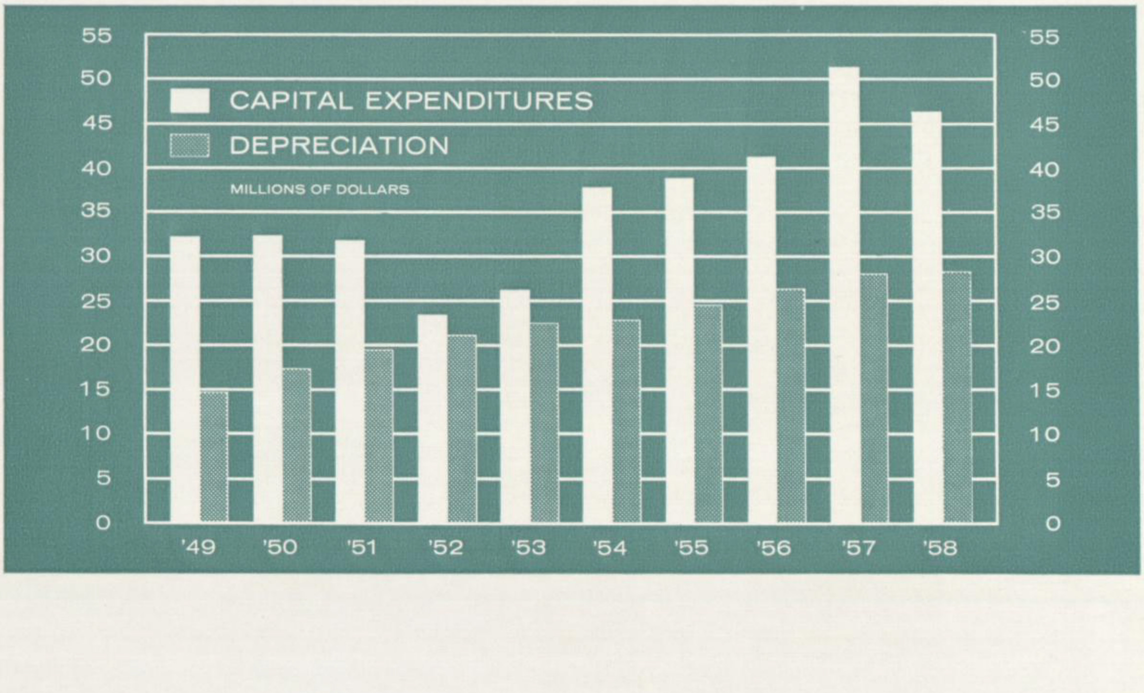
Capital expenditures again provided one of the yardsticks of our forward planning. A total of $46,337,000 was disbursed in 1958 as part of this continuing program, which is designed to build new plants, modernize existing plants and replace processing and automotive equipment. Late in the year, the Board of Directors authorized a capital expenditures budget of $57,900,000 for 1959.

Our building program in 1958 was marked by the openings of three large new processing plants—one for edible oils, and two for our milk business. In June, thousands of visitors attended the open house marking the completion of our new vegetable oil refinery at Champaign, Ill. Representing the latest in processing improvements, this refinery is strategically located in relation to raw materials and the markets of the Mid-West.

BUILDING
PROGRAM

Modern milk plants at Pittsburgh, Pa. and Camden, N. J. for our Sealtest Foods Division were also completed during the year. The new plant in Pittsburgh, opened in October, enables this Division to further improve its services to the people of western Pennsylvania. The Camden plant, opened in August, facilitates the production and distribution of Sealtest products in one of the busiest markets of the central Atlantic seaboard.

At the year-end, construction was completed and the installation of equipment was well under way at the new plant of our Kraft Foods Division near Los Angeles. Virtually the entire line of Kraft products will be processed at this plant, which comprises one of the largest man-



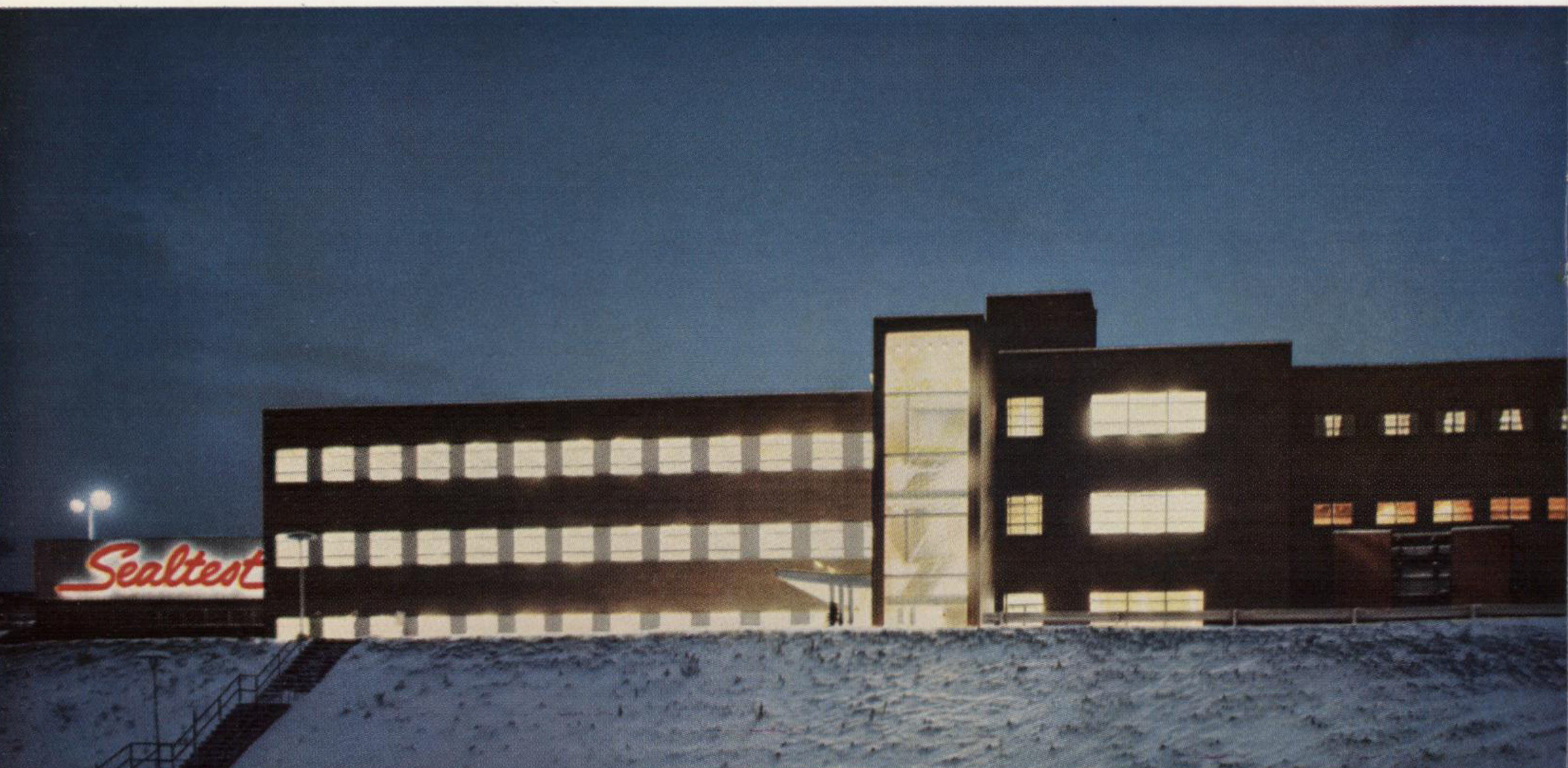
ufacturing and distributing centers operated by this Division. It will permit us to increase the flow of products into the steadily growing markets of the Pacific Coast. Construction also was begun during the year on an addition designed to increase the output of our Kraft processing plant at New Ulm, Minn.

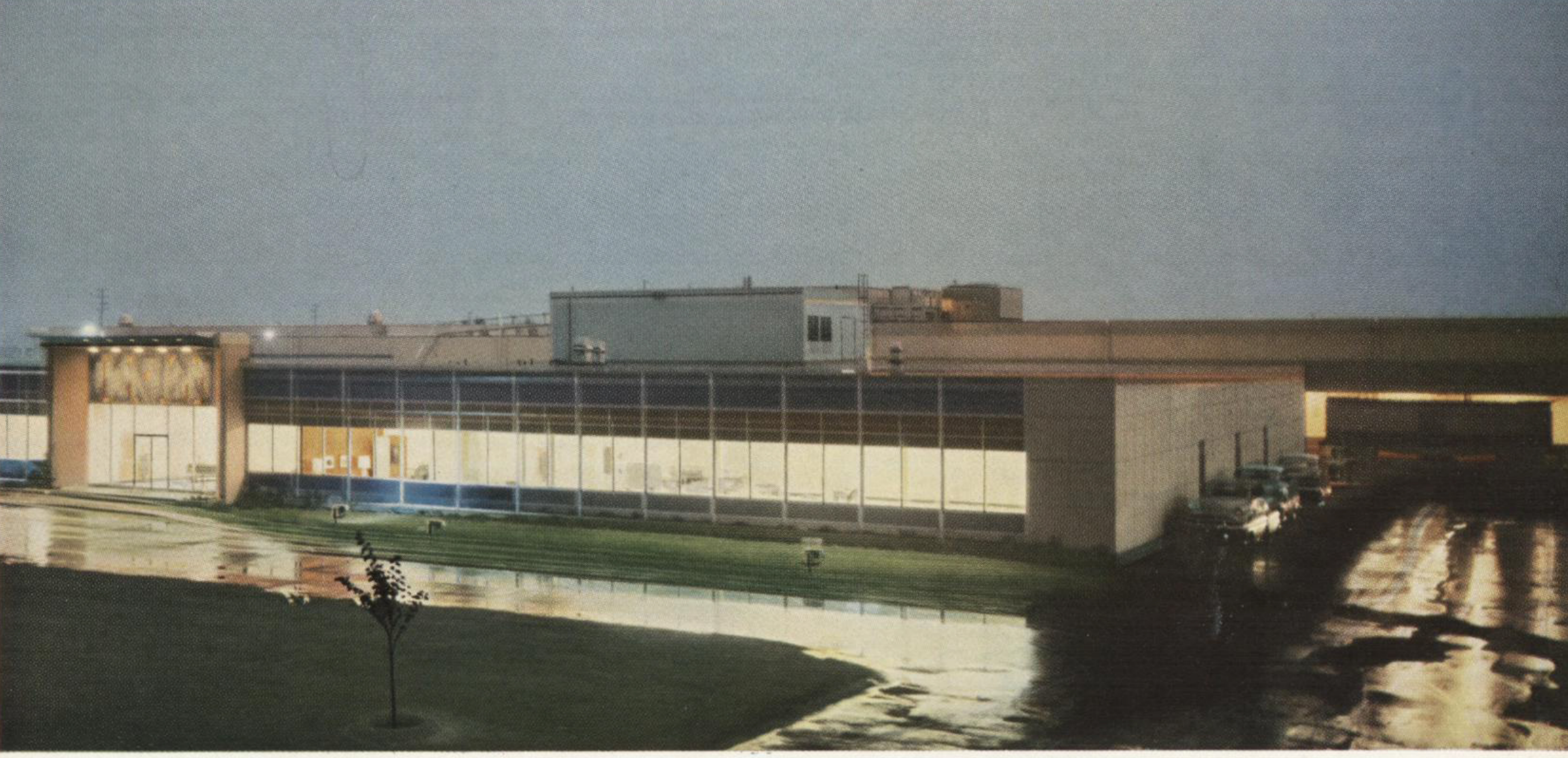
We also purchased a site in Carteret, N. J., near Newark, where we will construct a modern glass manufacturing plant to provide for the growing business of our Metro Glass Division. Already operating plants located in Jersey City, N. J., Washington, Pa. and Dolton, Ill., Metro supplies glass containers to National Dairy divisions and to many other companies in the food, beverage, cosmetics and household products industries.

The growth of our international operations continued during 1958. The Company's business in Canada showed favorable gains, both with the retail trade and with public eating places. Packaged natural cheeses have enjoyed a good acceptance there, and the new varieties added last year to our lines of jellies and preserves and salad dressings were well-received by Canadian consumers. Canada is undergoing a great industrial and economic growth, and our business there has developed to the extent that we are undertaking a substantial addition to the Montreal plant which was opened only three years ago.

In our overseas markets, we experienced another year of increased business. The Company's operation in Great Britain continued its sound growth and we further improved our services to the trade throughout the British Isles. With the added facilities of the plant at Liverpool, we were able to foster the more efficient distribution of

Below: Typical of the efficient facilities we have been constructing for our Sealtest Foods Division, this new milk plant at Pittsburgh was opened in 1958. Operating with push-button precision, it processes thousands of pounds of milk daily for customers in western Pennsylvania.





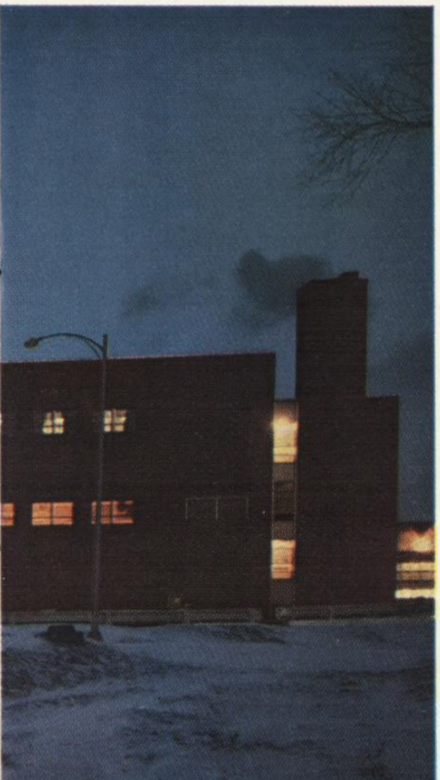
Above: Panoramic view of our new Kraft Foods plant near Los Angeles. Modern in design and equipment and housing large areas for the manufacture and distribution of products, it is representative of other plants built in recent years for the use of this Division.

our products through the sales branches which serve the various areas.

In West Germany, we continued to develop our method of distribution in order to move products more efficiently from our plant near Hamburg to the retail outlets. Consumer services were expanded, and advertising showing the use of products was stressed. The production and merchandising know-how which the Company has gained in its domestic business is steadily being introduced in Germany, as it is in our other foreign operations.

The Australian business moved ahead during 1958. Sales of packaged natural cheese were good, and newly-introduced cheese spreads scored an immediate success. Other product lines showed satisfactory increases, including those manufactured to suit the particular tastes of the Australian public. To extend our manufacturing facilities in New Zealand, construction was started in 1958 on a plant at Auckland.

Combined net sales of our unconsolidated overseas subsidiaries increased to $97,141,000 for 1958. Earnings were lower, due to the continued expenses connected with putting the plants built during the last few years into efficient production; strengthening our sales and distributing organizations, and introducing new products. The Company's equity in foreign profits for 1958 amounted to $1,801,000. We received dividends of $1,890,000 from our overseas subsidiaries.



RESEARCH

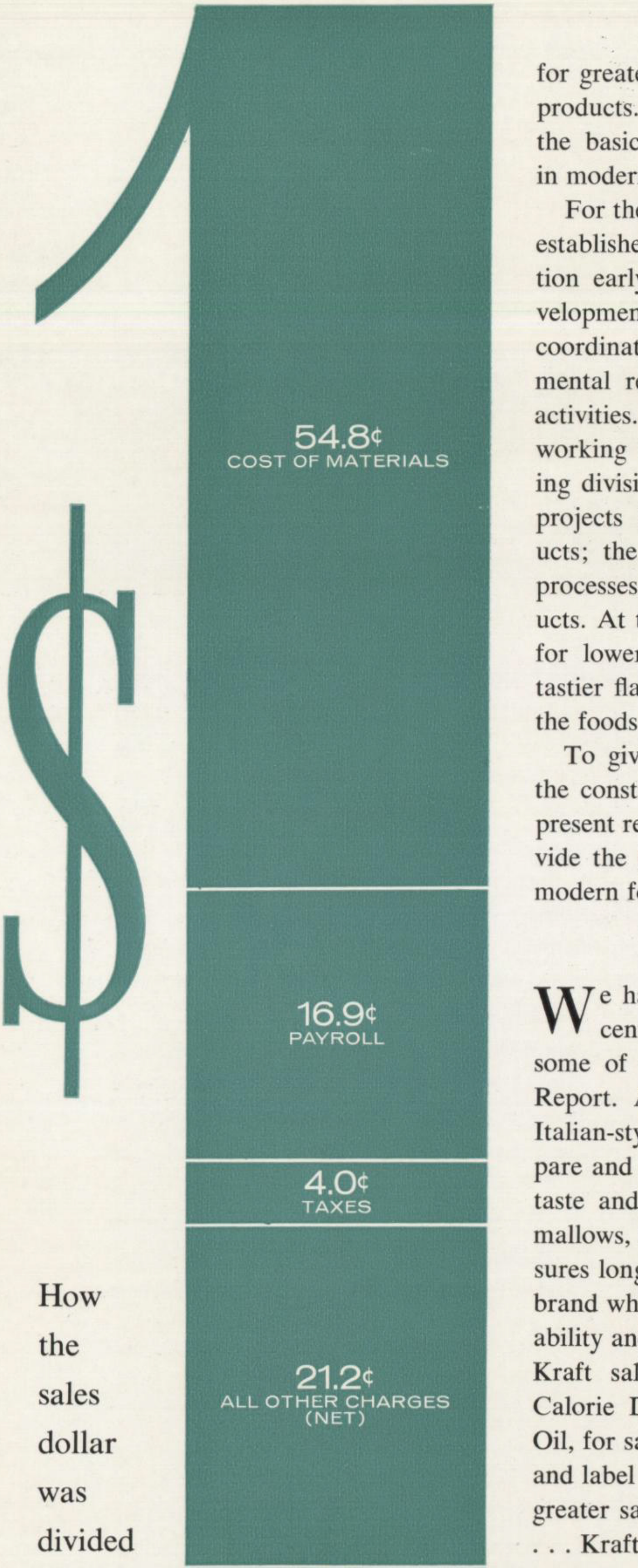
Research and development continue to play an important role in the Company's operations. We must always recognize the growing consumer enthusiasm for new ideas in products and packaging; the changing tastes and preferences in diet, and the increasing demand for greater nutrition, convenience and variety in food products. At the same time, we must keep abreast of the basic research advances constantly taking place in modern food science and technology.

For these reasons, we took another step in our long-established program of food research with the formation early in 1958 of a separate Research and Development Division, which is responsible for the coordination of all the Company's applied and fundamental research, and for the conduct of laboratory activities. The establishment of this separate Division—working in close cooperation with all our operating divisions—permits more effective action on those projects involving the development of new products; the improvement of established products and processes, and the more efficient utilization of by-products. At the same time, we are accelerating the quest for lower costs, better packaging, longer shelf life, tastier flavors and more attractive appearance for all the foods we make and sell.

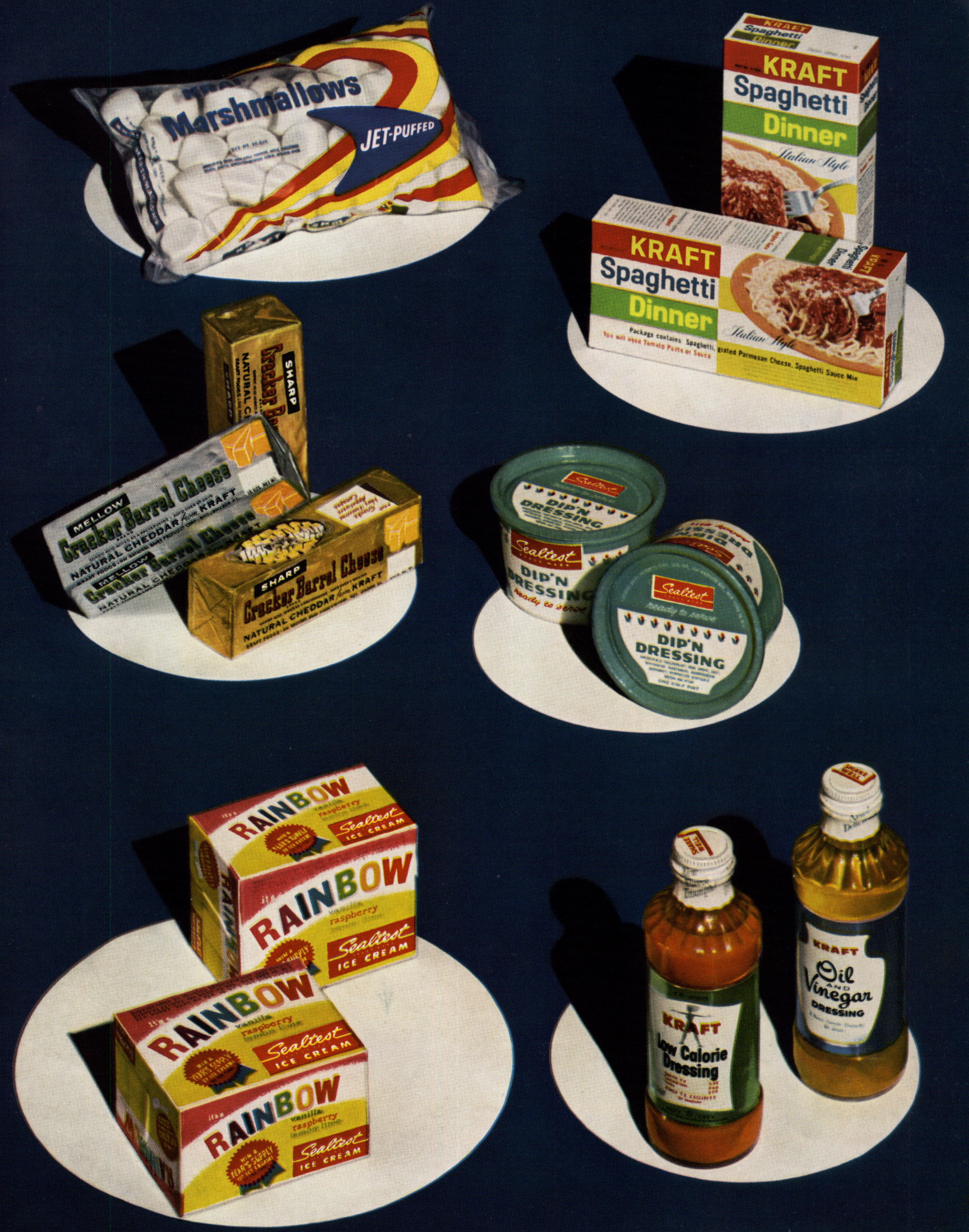
To give further impetus to this program, we plan the construction of a new laboratory adjacent to the present research facility at Glenview, Ill. This will provide the Company with one of the largest and most modern food research operations in the country.

PRODUCT DEVELOPMENT

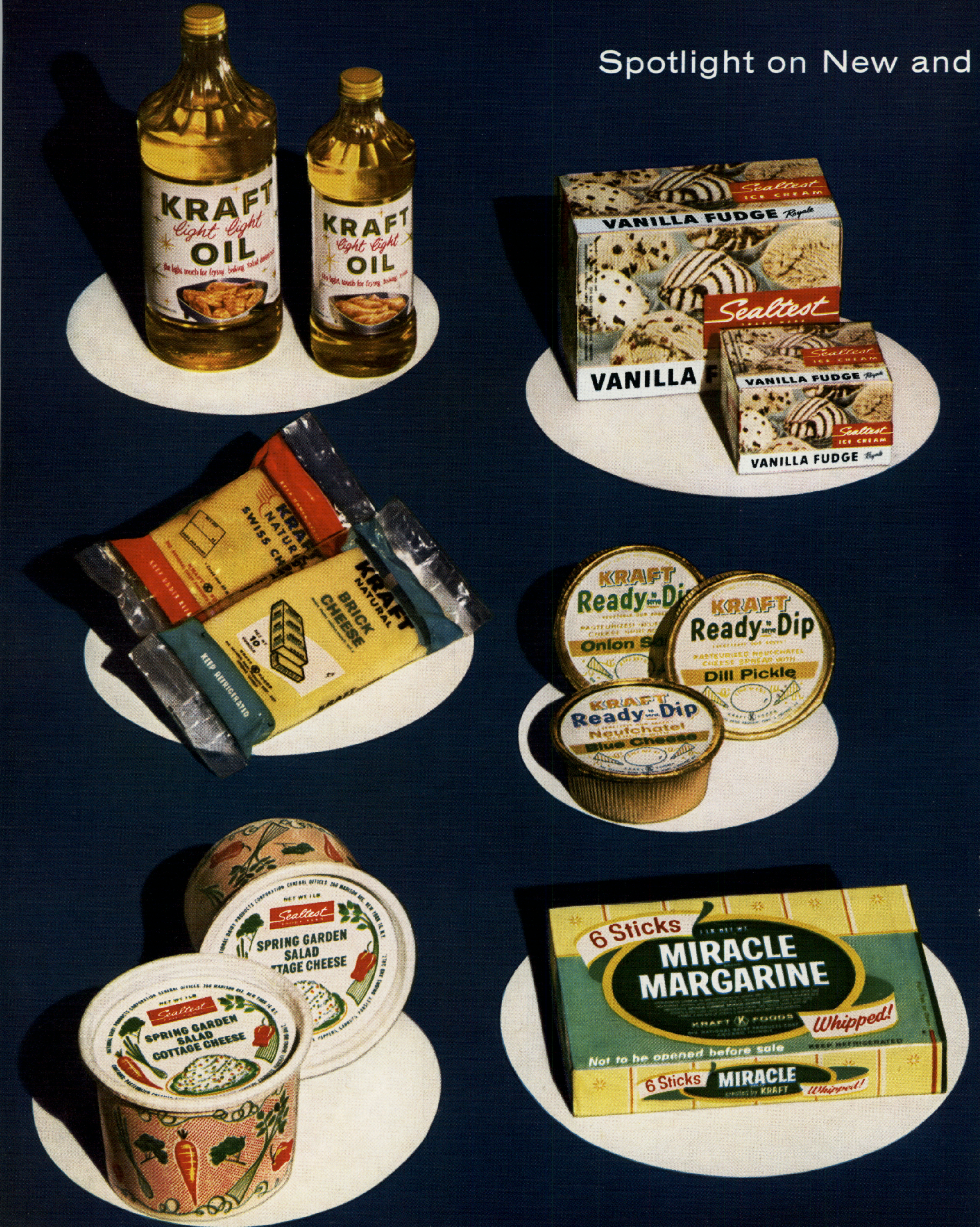
We have been able to introduce a number of recent innovations in products and packaging, some of which are pictured on Pages 9-11 of this Report. Among these are: Kraft Spaghetti Dinner, Italian-style—a delicious new product, easy to prepare and serve . . . Sealtest's Dip'N Dressing, good to taste and convenient to use . . . Jet-Puffed Marshmallows, made by an exclusive, new process which insures long-lasting softness . . . Breakstone's Temp-Tee brand whipped cream cheese, with its extreme spreadability and delicate, smooth texture . . . two additional Kraft salad products—Oil and Vinegar and Low Calorie Dressing, for the diet-conscious . . . Kraft Oil, for salads and cooking, in a handsome new bottle and label . . . Sealtest Ice Cream cartons, designed for greater sales appeal and increased product protection . . . Kraft Natural cheese in the popular flavors, espe-



How the sales dollar was divided


Marshmallows
JET-PUFFED
KRAFT
Spaghetti
Dinner
Italian Style
Package contains: Spaghetti, grated Parmesan Cheese, Spaghetti Sauce Mix
You will need Tomato Paste or Sauce
SHARP
Cracker Barrel
NATURAL CHEDDAR
MELLOW
Cracker Barrel Cheese
NATURAL CHEDDAR from KRAFT
SHARP
Cracker Barrel Cheese
NATURAL CHEDDAR from KRAFT
Sealtest
DIP'N DRESSING
ready to serve
Sealtest
ready to serve
DIP'N DRESSING
RAINBOW
vanilla
raspberry
lemon lime
Sealtest
ICE CREAM
KRAFT
Low Calorie Dressing
KRAFT
Oil and Vinegar
DRESSING
SHAKE WELL

Spotlight on New and


KRAFT light light OIL
the light touch for frying baking salad dressings
Sealtest ICE CREAM
VANILLA FUDGE Royale
KRAFT NATURAL SWISS CHEESE
KRAFT NATURAL BRICK CHEESE
KEEP REFRIGERATED
KRAFT Ready to serve Dip
Onion Soup
Dill Pickle
Neufchatel Blue Cheese
Sealtest
SPRING GARDEN SALAD COTTAGE CHEESE
6 Sticks
MIRACLE MARGARINE
Whipped!
KRAFT FOODS
Not to be opened before sale
KEEP REFRIGERATED
MIRACLE created by KRAFT

Improved Products and Packaging

Temp Tee
WHIPPED CREAM CHEESE
BREAKSTONE

CHOCOLATE
Sealtest ICE CREAM
COLATE

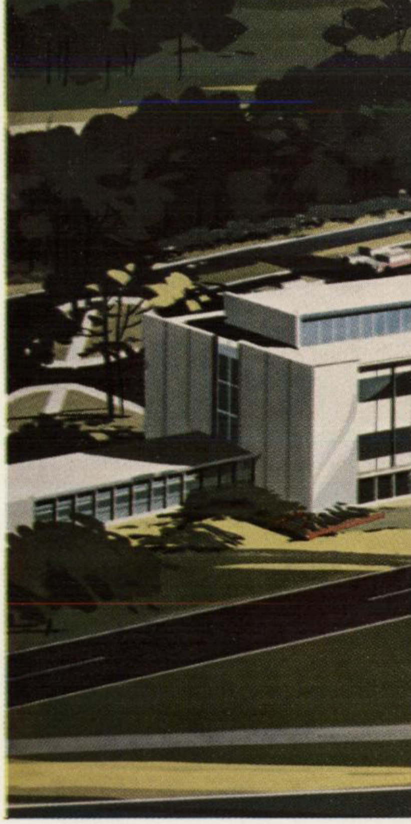
Breyers
ICE CREAM
PARTY PAKT 8 SLICES
VANILLA CHOCOLATE STRAWBERRY
made better...
tastes better...

Sealtest
100% PURE
ORANGE JUICE
DIRECT FROM FLORIDA
KEEP REFRIGERATED
SHAKE WELL

KRAFT
Pure PINEAPPLE PRESERVES
KRAFT
MINT APPLE JELLY
KRAFT
Pure WILD ELDERBERRY JELLY
KRAFT FOODS

MacLaren's
Imperial
Cheddar Club Cheese
Sharp!
KRAFT

cially packaged in easy-to-cut chunks . . . a new package for Sealtest's widely-favored Spring Garden Salad Cottage Cheese . . . Cracker Barrel Cheese, the well-known natural cheddar, presented by Kraft in a new 10-ounce stick form, ready for cracker-size slicing . . . improved Breyers Ice Cream packages featuring the familiar leaf design, with flavors quickly identifiable . . . Kraft's Miracle Margarine, whipped for extra smoothness and packaged six bars to the pound . . . the new Ready Dip flavored cheese spreads by Kraft, packed in foil cups and soft-textured for use as snacks . . . Sealtest Orange Juice, conveniently packaged for instant use . . . Several new varieties of Kraft's popular jellies and preserves . . . and Imperial Cheddar Club cheese, another Kraft product, appearing for the first time in aluminum canisters.

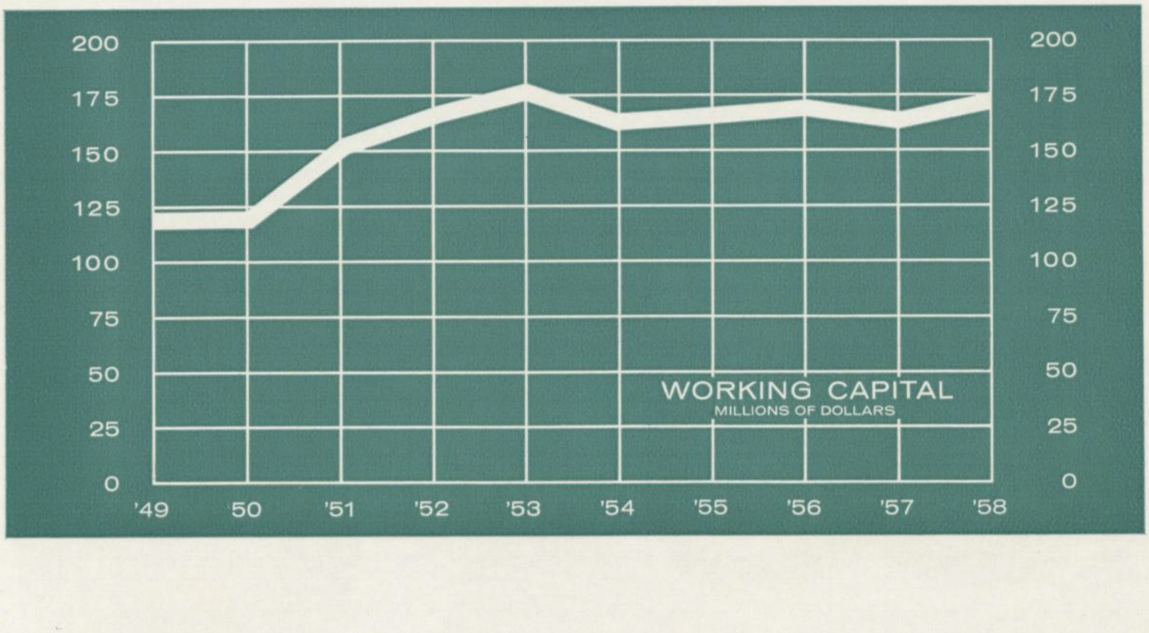


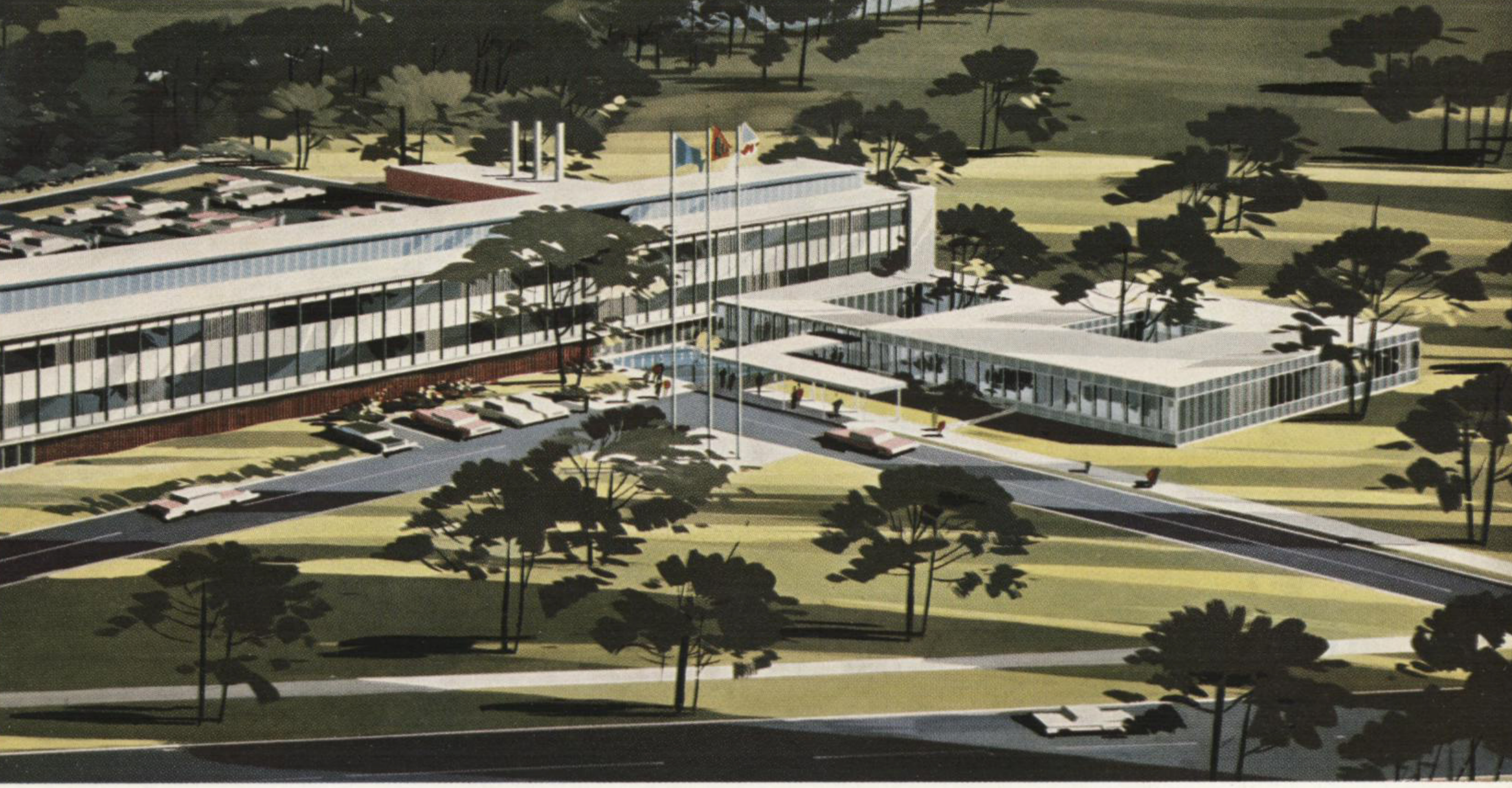
Architect's sketch of the Company's proposed new laboratory which will be erected at Glenview, Ill., on a site next to our present research facility.

BUILDING OUR CONSUMER FRANCHISE

The Company's sales growth in 1958 benefited from our merchandising and distribution efforts, which are designed to effect deeper penetration of our markets and adapt our services to population trends —particularly the movement of more and more families toward city and suburban centers. As part of the merchandising effort, our consumer advertising campaigns were carried on aggressively. With each division directing its own sales promotions, we were able to tell many separate product stories with the frequency and effectiveness necessary to win consumer favor and sustain public demand. We believe the "consumer franchise" we have built for our leading trademarks constitutes one of the Corporation's greatest assets.

In addition to strong brand advertising, the Company's messages in all media placed greater emphasis on the infinite variety of uses for our products in the home. Many new dishes featuring an extensive range of products were originated in the Kraft and Sealtest Consumer





Kitchens—and these dishes, accompanied by recipes, were widely pictured in print and over television. The pulling power of product-use advertising is indicated by the response to our recipe offers on television, which amounts to many thousand requests per week from viewers.

During the year, we concentrated upon our dealer service work, helping food merchants move our products by providing them with merchandising assistance right at the point-of-sale in the stores. By getting products to our retail outlets quickly and at the peak of freshness and perfection, we seek to make it increasingly attractive for them to do business with National Dairy.

Following the same pattern, we continued to develop our business with restaurants, hotels, schools, plant cafeterias, military mess halls and other institutions where large groups of people are fed. In recent years, our sales organizations have increased their efforts to serve these customers more fully, and a number of our products are sold in larger packages to meet the requirements of mass feeding. Eating-away-from-home is a constantly growing custom, which has developed into a market representing the consumption of 120,000,000 meals a day, and this type of business has become of increasing importance to all our Divisions.

F. T. C. Complaints

There are three proceedings against the Company pending before the Federal Trade Commission. One alleges that a variety of business practices common in the ice cream industry constitute unfair trade practices; and there are similar suits against a number of our

View of the Sealtest Consumer Kitchens, where home economists test new food ideas and develop recipes featuring dairy products for use in advertising and sales promotion.

chief competitors. The second alleges that certain acquisitions of businesses made since 1950 violate the Anti-Merger Act. Similar suits are pending against three other important companies in the dairy industry. The third alleges that certain pricing, discount and trade allowance practices of the Company, which are common in the industry, constitute violations of the Robinson-Patman Act. The Company is vigorously defending its position in all three cases. Hearings have terminated in the first proceeding and the decision of the Hearing Examiner is being awaited. Hearings are in progress in the other two proceedings and probably will not be completed within this year.

As we have previously reported to stockholders, the Company within recent years has carried forward a program under which our former subsidiaries were integrated into operating divisions of National Dairy. This program, which is virtually completed, has done much to simplify our corporate structure. The divisions continue to carry the primary responsibility for the results of regional and local business, in accordance with our long-standing policy of decentralized operations. Last year, the Company further strengthened the lines of responsibility at each level of management. Our activities are now organized into six operating divisions, which are: Kraft Foods; Sealtest Foods; Breakstone Foods; Sugar Creek Creamery; Humko, and Metro Glass Company, Inc. As a result of these developments, we are achieving greater teamwork and efficiency throughout the Company.

As we came to the end of our 35th year of business, we were well-equipped to go forward. The Company was financially strong, closely integrated, ably manned and keenly competitive. In every respect, we are thoroughly prepared to meet our responsibilities both as a business and as a good corporate citizen in the communities we serve.

For their important contribution to our progress in 1958, we want to thank our many employees, suppliers, dealers and customers. And, to all of National Dairy's stockholders, whose fine support has helped us once again to advance the best interests of the business, we wish to express our sincere appreciation.

By order of the Board of Directors.

New York, N. Y.
March 5, 1959

E E Stewart
President and
Chairman of the Board

Screening a Kraft television commercial. The viewer sees only the girl's hands using our products, as the announcer gives the recipe. We pioneered this successful television technique.

Color Television

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES
Consolidated Balance Sheets

ASSETS

	December 31	
CURRENT ASSETS:	1958	1957
Cash	$ 44,302,181	$ 54,917,860
Notes and accounts receivable, less reserve	69,685,671	65,841,382
Inventories, lower of average cost or market—		
Products and materials	147,819,963	129,265,906
Supplies	15,926,370	17,151,316
Total Current Assets	$277,734,185	$267,176,464
INVESTMENTS AND OTHER ASSETS:		
Foreign subsidiaries not consolidated	$ 13,795,160	$ 13,138,266
Miscellaneous investments, deposits and receivables, less reserves	3,313,291	5,052,771
	$ 17,108,451	$ 18,191,037
PROPERTY, PLANT & EQUIPMENT (Stated substantially at cost):		
Land	$ 17,133,384	$ 16,584,893
Buildings	153,655,381	143,516,901
Machinery and equipment	291,532,260	278,150,393
	$462,321,025	$438,252,187
Less—Reserve for depreciation	208,898,788	198,576,562
	$253,422,237	$239,675,625
PREPAID AND DEFERRED ITEMS	$ 3,476,704	$ 3,875,105
INTANGIBLES	$ 6,350,191	$ 6,350,191
	$558,091,768	$535,268,422

(See Notes to Consolidated Financial Statements, pages 18, 19 and 20.)

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES

Consolidated Balance Sheets

LIABILITIES

	December 31	
	1958	1957
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 89,166,091	$ 90,168,219
Provision for Federal and Canadian taxes on income	28,134,248	24,968,111
Less—Short-term U. S. Government securities	(15,833,200)	(18,335,416)
Debenture sinking fund requirements and Note due within one year, less Debentures held in treasury ($2,368,000 in 1958 and $3,000 in 1957)	882,000	3,247,000
Total Current Liabilities	$102,349,139	$100,047,914
LONG-TERM DEBT:		
2¾% Debentures due December 1, 1970	$ 36,000,000	$ 37,500,000
3% Debentures due December 1, 1970	22,500,000	23,400,000
3⅛% Debentures due June 1, 1976	26,400,000	27,000,000
3⅛% Notes (Due $250,000 annually in Canadian funds)	750,000	1,000,000
	$ 85,650,000	$ 88,900,000
DEFERRED FEDERAL AND CANADIAN TAXES ON INCOME	$ 4,545,375	$ 2,618,327
RESERVES FOR INSURANCE, ETC.	$ 1,955,246	$ 2,125,709
CAPITAL STOCK AND SURPLUS:		
Common stock, authorized 16,000,000 shares (par value $5 per share)—		
Issued and outstanding (1958—13,895,177 shares, 1957—13,845,458 shares)	$ 69,475,885	$ 69,227,290
Capital surplus, per statement attached	18,254,576	17,058,907
Earned surplus, per statement attached	275,861,547	255,290,275
	$363,592,008	$341,576,472
	$558,091,768	$535,268,422

(See Notes to Consolidated Financial Statements, pages 18, 19 and 20.)

CONSOLIDATED PROFIT AND LOSS

	Year ended December 31 1958	1957
INCOME:		
Net sales	$1,451,245,332	$1,432,319,287
Other income	6,118,435	6,129,771
Total	$1,457,363,767	$1,438,449,058
INCOME DEDUCTIONS:		
Cost of products	$1,064,627,922	$1,052,908,499
Delivery expense	154,406,814	152,616,046
Selling expense	96,975,241	97,106,038
General and administrative expense	50,331,706	48,749,101
Miscellaneous charges—net	750,013	575,795
Interest on long-term debt	2,627,469	2,735,227
Provision for Federal and Canadian taxes on income	42,100,000	39,700,000
Total	$1,411,819,165	$1,394,390,706
NET PROFIT FOR THE YEAR	$ 45,544,602	$ 44,058,352

The provision for depreciation charged to costs and expenses amounted in 1958 to $28,284,725 and in 1957 to $27,916,640.

(See Notes to Consolidated Financial Statements, pages 18, 19 and 20.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS...*December 31, 1958*

PRINCIPLES OF CONSOLIDATION

All domestic and Canadian subsidiary companies have been included in consolidation except a mutual insurance company. Information concerning the foreign subsidiaries not consolidated is shown herein on Page 21.

FEDERAL AND CANADIAN INCOME TAXES

The Company follows the practice, for income tax reporting only, of using the declining balance method of computing depreciation (involving increased rates of depreciation) on the major classes of its buildings, machinery and equipment acquired after 1953 in the United States and on all such assets in Canada. For all other purposes, including the financial statements, the straight-line method has been continued. Prior to July 1, 1958, the greater part of the reduction in income tax payments resulting from the additional depreciation deductions has been reflected as additional earnings for the respective years. Effective July 1, 1958, in order to follow the treatment for such tax reductions prescribed

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES
Statements of Consolidated Surplus

CONSOLIDATED EARNED SURPLUS

	Year ended December 31 1958	1957
Balance at beginning of year	$255,290,275	$236,123,702
Net profit for the year	45,544,602	44,058,352
	$300,834,877	$280,182,054
Dividends on common stock—$1.80 per share in 1958; $1.80 in 1957	24,973,330	24,891,779
Balance at end of year	$275,861,547	$255,290,275

CONSOLIDATED CAPITAL SURPLUS

	1958	1957
Balance at beginning of year	$ 17,058,907	$ 16,180,969
Excess of consideration received over par value of shares issued	1,195,669	877,938
Balance at end of year	$ 18,254,576	$ 17,058,907

(See Notes to Consolidated Financial Statements, pages 18, 19 and 20.)

COMPTROLLER'S CERTIFICATE

The foregoing financial statements have been prepared under my direction from the companies' books kept under my supervision and, to the best of my knowledge and belief, fairly state the consolidated position of National Dairy Products Corporation and domestic and Canadian subsidiaries as of December 31, 1958 and the consolidated operations for the year ended on that date.

New York, N. Y., March 5, 1959.

ABorg Jr.
Comptroller

by the American Institute of Certified Public Accountants in a revised bulletin dated July, 1958, the Company adopted the policy of deferring all tax reductions attributable to declining balance depreciation and eliminating all such amounts from earnings. Such tax reduction included in earnings amounted to $1,430,000 for the six months ended June 30, 1958, and $3,069,000 for the year ended December 31, 1957. The amounts deferred are included in "Deferred Federal and Canadian Taxes on Income" in the accompanying balance sheets.

LONG-TERM DEBT AND EARNED SURPLUS

The Indenture and Supplemental Indentures under which the Debentures of the Company are outstanding contain provisions with respect to the payment of dividends on capital stock. Under these provisions, $59,200,000 of consolidated earned surplus was not available for cash dividends at December 31, 1958.

The Indentures also require that certain minimum amounts of Debentures of each series be retired each year through the operation of a sinking fund.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . *Dec. 31, 1958 (cont'd)*

Aggregate minimum sinking fund requirements for the year 1959 are $3,000,000 and for each of the succeeding five years, $3,300,000.

EMPLOYEES' STOCK OPTION PLAN

Under the Employees' Stock Option Plan approved in 1952 there were 430,647 shares of the authorized and unissued common stock of the Company reserved at December 31, 1958, for sale to officers and other key employees. At that date 1,604 employees held options to purchase such number of shares at prices ranging from $25.975 to $38.60 per share, with an aggregate purchase price of $13,796,734. All such options were granted prior to April 17, 1957 inasmuch as, under the Plan, no grants were available after that date. Options became exercisable during 1958 with respect to 63,124 shares having an aggregate purchase price of $1,989,046. During the year, 49,478 shares were issued under the Plan and the proceeds of $1,436,010 were credited to the common stock and capital surplus accounts.

At the 1958 annual meeting of the stockholders of the Company, the Employees' Stock Option Plan was amended. Under the Plan as amended 300,000 additional shares of the authorized and unissued common stock of the Company were reserved for sale to officers and other key employees. On November 6, 1958 options to purchase 141,545 of said shares at $48.25 per share were granted to 1,027 employees.

All options become exercisable in cumulative periodic installments extending over the terms of such options (generally ten years or to earlier retirement date), commencing not earlier than one year from the date of grant.

COMPANY PENSION PLANS

Charges to costs and expenses with respect to the Company's pension plans amounted to $6,170,000 in 1958 and $5,758,000 in 1957. The unfunded past service cost of the non-contributory pension plan for those of the eligible employees presently covered, estimated to be $26,700,000 at December 31, 1958, is being funded in installments to 1981.

INCENTIVE COMPENSATION PLANS

Under year-to-year incentive compensation plans of the divisions, key employees received approximately $4,172,000 for 1958 and $3,886,000 for 1957. In 1958 these plans covered 2,420 employees; none of whom received as much as 1% of the total. No executive officer or director of the Company participated in these plans.

AUDITORS' CERTIFICATE

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF NATIONAL DAIRY PRODUCTS CORPORATION:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) and domestic and Canadian subsidiary companies as of December 31, 1958, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the year 1957.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of National Dairy Products Corporation and domestic and Canadian subsidiary companies as of December 31, 1958, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y., March 5, 1959.

Arthur Andersen & Co

NATIONAL DAIRY PRODUCTS CORPORATION

Foreign Subsidiaries Not Consolidated

COMBINED CONDENSED BALANCE SHEETS

	December 31 1958	 1957
Current assets	$26,489,188	$27,368,083
Investments and other assets	364,528	261,321
Property, plant and equipment, less reserve for depreciation	23,392,810	22,255,524
Prepaid and deferred items	262,410	228,604
	$50,508,936	$50,113,532
Current liabilities	$13,001,849	$14,328,955
Long-term debt	6,395,872	6,588,169
Reserves for insurance, etc.	1,310,518	1,170,188
	$20,708,239	$22,087,312
Net tangible assets*	$29,800,697	$28,026,220
Less—Minority interest	4,584,607	4,208,961
Company's equity in net tangible assets	$25,216,090	$23,817,259
Company's investment in and advances to foreign subsidiaries not consolidated per Consolidated Balance Sheets	$13,795,160	$13,138,266

* *All inter-company accounts have been eliminated.*

COMBINED CONDENSED STATEMENTS OF PROFIT AND LOSS

	Year ended December 31 1958	 1957
Income:		
Net sales	$97,140,560	$95,599,784
Other income	816,897	357,105
Total	$97,957,457	$95,956,889
Income deductions:		
Cost of products	$74,550,725	$73,859,841
Delivery, selling, general and administrative expenses	17,832,091	16,180,258
Interest on long-term debt	315,828	321,558
Provision for taxes on income	2,935,245	2,305,431
Total	$95,633,889	$92,667,088
Net profit	$ 2,323,568	$ 3,289,801
Less—Minority interest	522,380	598,681
Company's equity in net profit	$ 1,801,188	$ 2,691,120
Dividends received by Company	$ 1,889,503	$ 1,984,263

All assets and liabilities, other than property, plant and equipment, long-term debt and certain reserves, are translated at the rates of exchange prevailing at the end of each year. The effect of fluctuations in exchange rates is reflected in profit and loss.

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND CANADIAN* SUBSIDIARY COMPANIES

CONDENSED TEN-YEAR STATEMENT OF CONSOLIDATED ASSETS AND LIABILITIES

(All amounts are expressed in thousands)

WORKING CAPITAL	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949
CURRENT ASSETS										
Cash and marketable securities	$ 44,302	$ 54,918	$ 51,617	$ 60,148	$ 82,322	$ 82,598	$ 39,528	$ 42,156	$ 38,836	$ 53,593
Notes and accounts receivable (net)	69,686	65,841	65,948	55,613	49,231	50,733	50,534	46,735	38,919	32,825
Inventories	163,746	146,417	150,135	135,488	111,912	107,306	136,865	122,750	94,434	80,124
Total Current Assets	$277,734	$267,176	$267,700	$251,249	$243,465	$240,637	$226,927	$211,641	$172,189	$166,542
CURRENT LIABILITIES										
Accounts payable and accruals	$ 89,166	$ 90,168	$ 84,904	$ 75,305	$ 72,079	$ 58,281	$ 54,402	$ 54,143	$ 47,164	$ 42,477
Federal and Canadian taxes on income	28,134	24,968	28,897	38,617	36,334	49,729	42,777	39,479	30,600	22,150
Less—U. S. Government securities	(15,833)	(18,335)	(21,853)	(34,238)	(33,397)	(49,113)	(41,850)	(39,150)	(30,600)	(22,150)
Debenture sinking fund requirements and Note due within one year, less Debentures held in treasury	882	3,247	2,918	2,180	1,750	1,415	1,850	1,850	1,850	1,100
Total Current Liabilities	$102,349	$100,048	$ 94,866	$ 81,864	$ 76,766	$ 60,312	$ 57,179	$ 56,322	$ 49,014	$ 43,577
Working Capital	$175,385	$167,128	$172,834	$169,385	$166,699	$180,325	$169,748	$155,319	$123,175	$122,965
PROPERTY, PLANT & EQUIPMENT—NET	253,422	239,676	221,117	205,528	191,490	176,384	174,528	172,699	160,050	146,132
INVESTMENTS, OTHER ASSETS AND PREPAID ITEMS**	20,586	22,066	17,094	12,502	11,510	7,946	7,740	6,188	11,202	10,929
Total	$449,393	$428,870	$411,045	$387,415	$369,699	$364,655	$352,016	$334,206	$294,427	$280,026
LONG-TERM DEBT	$ 85,650	$ 88,900	$ 92,150	$ 95,400	$ 98,650	$101,400	$103,850	$105,700	$ 77,550	$ 79,400
RESERVES, ETC.	6,501	4,744	3,892	2,704	2,631	14,398	13,162	11,842	11,482	11,018
Total	$ 92,151	$ 93,644	$ 96,042	$ 98,104	$101,281	$115,798	$117,012	$117,542	$ 89,032	$ 90,418
Book Value of Common Stock**	$357,242	$335,226	$315,003	$289,311	$268,418	$248,857	$235,004	$216,664	$205,395	$189,608

NOTE: **Canadian subsidiaries included beginning in* 1951.
***Excluding intangibles.*

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND CANADIAN* SUBSIDIARY COMPANIES

CONDENSED TEN-YEAR STATEMENT OF CONSOLIDATED PROFIT AND LOSS

(All amounts are expressed in thousands, except per share and other statistics)

INCOME	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949
Net sales	$1,451,245	$1,432,319	$1,352,878	$1,260,230	$1,210,328	$1,232,126	$1,141,296	$1,066,177	$906,641	$897,675
Other income	6,119	6,130	5,693	5,393	3,902	4,582	4,191	3,746	3,298	2,445
Total income	$1,457,364	$1,438,449	$1,358,571	$1,265,623	$1,214,230	$1,236,708	$1,145,487	$1,069,923	$909,939	$900,120
INCOME DEDUCTIONS										
Cost of products	$1,064,628	$1,052,909	$ 986,071	$ 910,490	$ 874,950	$ 912,586	$ 852,988	$ 793,857	$662,935	$668,051
Delivery expense	154,407	152,616	145,237	136,900	128,995	126,712	117,787	108,083	97,340	95,187
Selling expense	96,975	97,106	99,910	89,185	84,679	76,245	67,841	64,183	53,343	48,945
General and administrative expense	50,332	48,749	47,279	45,944	44,986	36,318	31,871	33,617	29,953	28,729
Miscellaneous charges—net	750	576	794	508	736	411	719	1,001	903	1,568
Interest on long-term debt	2,627	2,735	2,813	2,909	2,991	3,074	3,133	2,788	2,200	2,231
Federal and Canadian taxes on income	42,100	39,700	34,750	39,340	39,500	50,525	43,349	39,876	30,600	22,150
Total income deductions	$1,411,819	$1,394,391	$1,316,854	$1,225,276	$1,176,837	$1,205,871	$1,117,688	$1,043,405	$877,274	$866,861
Net profit for the year	$ 45,545	$ 44,058	$ 41,717	$ 40,347	$ 37,393	$ 30,837	$ 27,799	$ 26,518	$ 32,665	$ 33,259
PAYMENTS										
Dividends	$ 24,973	$ 24,892	$ 23,844	$ 21,601	$ 20,840	$ 19,853	$ 19,316	$ 18,460	$ 17,737	$ 13,860
Payroll	244,638	244,558	233,491	221,866	211,522	203,724	190,482	177,752	161,601	156,888
Taxes	57,869	54,373	49,708	53,029	52,333	62,758	54,668	50,944	40,924	32,110
PER SHARE OF COMMON STOCK†										
Earnings transferred to earned surplus	$ 3.27	$ 3.18	$ 3.02	$ 2.98	$ 2.77	$ 2.31	$ 2.11	$ 2.08	$ 2.57	$ 2.63
Dividends	1.80	1.80	1.75	1.60	1.55	1.50	1.50	1.45	1.40	1.10
Taxes	4.16	3.93	3.60	3.91	3.88	4.71	4.15	3.99	3.22	2.54
Book value (excluding intangibles)	25.71	24.21	22.81	21.36	19.91	18.68	17.86	16.98	16.18	15.01
OTHER STATISTICS										
Number of—										
Stockholders	68,681	68,364	66,478	64,841	63,177	62,318	63,205	63,797	64,420	66,764
Employees	44,194	46,332	46,496	45,905	45,733	45,274	44,405	44,264	43,060	43,615

NOTE: **Canadian subsidiaries included beginning in 1951.*
†All prior years adjusted to give effect to the 100% stock dividend of September 15, 1954.

NATIONAL DAIRY PRODUCTS CORPORATION

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Members of this committee are executives of National Dairy Products Corporation or of its divisions, and are designated by the Board of Directors.

Transfer Agent
MANUFACTURERS TRUST COMPANY
New York, New York

Registrar
THE CHASE MANHATTAN BANK
New York, New York

Counsel
SULLIVAN & CROMWELL

Auditors
ARTHUR ANDERSEN & CO.

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